

# **DS3 System Services Contracts for Interim Arrangements DECISION PAPER**

DS3 System Services Implementation Project

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3 August 2016

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## Introduction and Background

The objective of the DS3 Programme, of which System Services is a part, is to meet the challenges of operating the electricity system in a safe, secure and efficient manner while facilitating higher levels of renewable energy.

One of the key workstreams in the DS3 Programme is the System Services (or Ancillary Services) workstream. The aim of the System Services workstream is to put in place the correct structure, level and type of service in order to ensure that the system can operate securely with higher levels of non-synchronous generation such as variable wind penetration (up to 75% instantaneous penetration). This will reduce the level of curtailment for wind farms and will deliver significant savings to consumers through lower wholesale energy prices.

In December 2014, the SEM Committee published a decision paper on the high-level design for the procurement of DS3 System Services (SEM-14-108). The SEM-14-108 Paper followed a number of consultative processes run separately by the TSOs and the SEM Committee between 2011 and 2014 as well as a number of independent reports, including an economic analysis, and system services valuation.

Subsequent to the publication of the SEM Committee SEM-14-108 paper, EirGrid and SONI ('the TSOs') worked together with the Commission for Energy Regulation and Utility Regulator ('the RAs') to develop a project plan<sup>1</sup> for delivery of the market arrangements in line with the key milestones set out in the SEM-14-108 paper.

One of the central workstreams included in the DS3 System Services Project Plan is Workstream 5 – Contract Design. The objective of this workstream is to design legal contracts for the procurement of the 14 DS3 System Services.

### 1.1 Interim and Enduring Arrangements

The SEM Committee decided that the implementation of the DS3 System Services arrangements would be divided into two phases – interim and enduring. The enduring arrangements will deliver competitive procurement, where appropriate, for the 14

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<sup>1</sup> DS3 System Services Project Plan (Detailed Design and Implementation Phase):  
<http://www.eirgrid.ie/site-files/library/EirGrid/DS3-System-Services-Project-Plan.pdf>

services. A cost-reflective tariff will be applied to services where there is insufficient competition.

During the interim arrangements, (October 1 2016 – September 30 2017), the TSOs will contract for services with all eligible providers, who will be paid at a rate, approved by the RAs, for the volume of services which they are able to deliver in each trading period.

Under both interim and enduring arrangements, potential providers will be required to participate in a procurement exercise. The interim contractual arrangements will be based on framework agreements between the TSOs and individual providing units for provision of DS3 System Services. The procurement process for the interim arrangements is currently on-going with contracts due to be awarded to successful tenderers ahead of the scheduled go-live date for the interim arrangements of 1 October 2016. This decision paper deals with the interim contractual arrangements only. The enduring contractual arrangements will be consulted on separately.

## 1.2 Workstream 5 – Contract Design

Table 1 shows the key interim arrangements milestones for Workstream 5.

**Table 1: DS3 System Services Workstream 5 Key Interim Milestones**

<b>Key Milestones</b>	<b>Date</b>
Consultation on Interim Contract Design	April 2016
SEM Committee decision on final Interim Contract	July 2016
Publication of Decision Paper	August 2016

In this paper, we are presenting our decision on the appropriate contractual arrangements for the 14 DS3 System Services for the Interim Arrangements.



## **2 Interim Arrangements Framework Agreements - Overview**

In April 2016, we issued a paper for consultation on the draft interim contracts for DS3 System Services. The document provided stakeholders with information about our proposals and a guide to the consultation process.

The interim arrangements for DS3 System Services will be in place from 1 October 2016 to 30 September 2017, after which time they will be superseded by the enduring arrangements. We propose to adopt a multi-provider framework structure for the procurement of DS3 System Services. Under the interim arrangements, Service Providers who meet the requisite procurement criteria will be appointed to either the EirGrid Framework Agreement or SONI Framework Agreement, as appropriate, for a period of one year. As regulated tariff payment rates will apply to the interim arrangements, all qualified Service Providers will receive a contract under the arrangements.

The proposed Framework Agreements adopt a similar structure to the existing Harmonised Ancillary Services (HAS) contracts which have been previously agreed with Service Providers and have operated as part of the HAS arrangements since their inception. They include some changes to the standard legal provisions to account for the framework structure and broaden out the HAS provisions to account for the wider range of Service Providers to which the arrangements will be open. The Framework Agreements specify the requirements and payment mechanisms for both the seven existing system (ancillary) services and for the seven new system services including scalar details where appropriate.

While separate Framework Agreements will apply for Northern Ireland and Ireland, arrangements will be aligned in so far as possible.

It is intended that the enduring arrangements will also comprise a multi-provider framework structure. However, as a contract award for the enduring arrangements will depend on the outcome of a competitive auction for those DS3 System Services that are deemed sufficiently competitive, the Framework Agreements proposed for the interim arrangements may not be best suited for the enduring arrangements. The TSOs intend to do further work on the contractual framework to ensure an optimal framework for the enduring

arrangements. The Framework Agreements for the enduring arrangements will be consulted on in due course.

## **2.1 Transition to New Technologies**

The TSOs are required to procure system services in an efficient manner. Given the increasing reliance on system services, we are of the opinion that these should only be paid for where delivery and quality of performance can be measured. We therefore need to establish reliable methods for measuring quality of service provision for all 14 services. To this end, performance monitoring has been introduced in the interim arrangements for 9 of the 14 DS3 System Services, detailed in the Protocol document. Regarding the five services for which a method of performance monitoring is not detailed in the Protocol document, the SIR service is not suitable for performance monitoring, while the FFR, FPFAPR and DRR services will be trialled through the Qualification Trial Process. For the SSRP service, the SSRP Performance Scalar will initially be set equal to 1 for all Providing Units. This is reflected in the Protocol document. The TSOs have not yet developed a performance monitoring method for SSRP. We are currently developing an enhanced performance monitoring tool which will be available during the interim period and may be used to performance monitor the SSRP service. If the TSOs introduce performance monitoring for SSRP during the interim period, we will consult with industry on the method of performance monitoring prior to implementation.

We have been able to build confidence in traditional power system technologies with many years of proven experience. The large scale deployment of new technologies through the DS3 System Services Enduring Arrangements is intended to reduce total costs and facilitate the delivery of public policy objectives. However, we will need to be confident that this deployment will not inadvertently undermine the resilience and security of the power system. As TSOs, we have a duty to maintain system stability and avoid loss of supply. We therefore need to take steps to identify the associated risks, obtain information about the capability of new types of Service Provider and manage this transition in a prudent fashion.

The interim arrangements provide an ideal opportunity to establish the mechanisms by which the characteristics of new technologies can become

“Proven” and “Measureable” for the widest range of non-energy system service provision possible. We propose to use a Qualification Trial Process to provide potential providers with an opportunity to demonstrate the capabilities of units that have not previously delivered system services on a system with similar characteristics to that of the all-island system. A consultation on the DS3 System Services Qualification Trial Process opened on 21 June 2016<sup>2</sup>.

The interim phase will procure the DS3 system services using regulated tariffs. This means that Service Providers will be paid at a tariff payment rate, approved by the Regulatory Authorities, for the volume of services they are available to deliver in each trading period. We will contract with all eligible Service Providers for 11 of the 14 services. For the other three services, namely Fast Frequency Response (FFR), Fast Post-Fault Active Power Recovery (FPFAPR) and Dynamic Reactive Response (DRR), we propose to use a Qualification Trial Process during the interim phase to assess the measurability approach to these “fast-acting” services. We will therefore only contract with a subset of eligible providers for these three services.

Notwithstanding the proposal to hold a Qualification Trial Process for new Service Providers and for the three “fast-acting” services, the Framework Agreements were drafted to account for as broad a range of technologies as possible and to cover all 14 of the DS3 System Services including the “fast-acting” services.

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<sup>2</sup> <http://www.eirgridgroup.com/site-files/library/EirGrid/Final-Qualification-Trials>

### **3 Responses to DS3 System Services Contracts for Interim Arrangements Consultation**

Fifteen responses to the consultation on Interim Contracts were received, one of which was marked as confidential. Of the fifteen respondents, three submitted additional legal comments on the framework drafting. Those responses which were not marked as confidential were received from:

- AES
- Bord Gáis Energy
- Brookfield Renewable Ireland Limited
- Electricity Association Ireland
- EirGrid Interconnector Ltd.
- Electric Ireland
- Energia
- ESB GWM
- IWEA Ltd.
- Moyle Interconnector Ltd.
- Power NI PPB
- Schwungrad Energie
- SSE
- Tynagh Energy Ltd.

The views of respondents have been summarised and addressed in the narrative below, categorised by consultation question. A summary of legal comments and associated changes to the Framework Agreement where appropriate appears after this. In keeping with previous System Service consultation papers, all responses that were not marked as confidential have been published by the TSOs.

A number of respondents replied with comments outside of the scope of this consultation. These may be dealt with, as appropriate, in other consultations. These include:

- Auction design and Enduring Arrangements;
- Tariff rates;
- SEMC decision on compensation for curtailed wind;
- GPI charges;

### 3.1 Foreword

**Term of Contracts:** There was some confusion among respondents with regard to the length of the Interim arrangements contracts, subsequent to the SEM Committee's notification of the delay to the Auction Design published on 23 May 2016. To clarify, the Interim arrangements will apply for one year from 1 October 2016 to 30 September 2017. They will not apply for a two year term as assumed by some respondents. It is envisaged that, subject to the consideration of the Regulatory Authorities, the arrangements for the year from 1 October 2017 to 30 September 2018 will include:

- a new procurement opportunity for Service Providers
- modified Framework Agreements reflective of further developments in scalars
- revised tariffs
- estimated service volumes
- automated enhanced performance monitoring for at least some technologies

**Scalars:** There was also confusion among some respondents regarding the interim scalar arrangements and their relationship to the enduring scalar arrangements. The Consultation on DS3 System Services Scalar Design, which focused on the enduring arrangements, and the Consultation on

DS3 System Services Contracts for Interim arrangements shared overlapping consultation timeframes (Scalars – 11 March 2016 to 29 April 2016, Contracts – 21 April 2016 to 3 June 2016), which may have contributed to this lack of clarity.

To clarify, the interim arrangements scalar designs are simplified versions of the enduring scalar designs. The interim contracts consultation sought views on those interim scalars (performance and product) as detailed in the draft Framework Agreements and Protocol and published as part of the consultation. The interim scalars' implementation is not dependent on the enduring scalars' decision.

## 4 Consultation Questions and Respondents Views

The following section summarises the views of respondents to the questions posed in the consultation paper together with respondents' additional general comments.

### 4.1 Framework Agreement Structure

#### **Question 1: Do you agree with the proposal that the Framework Agreements should apply on a Providing Unit basis rather than on a Service Provider basis?**

*Context: The proposal that the Framework Agreements should apply on a Providing Unit basis is consistent with the way in which the Northern Ireland Harmonised Ancillary Services (HAS) contracts are currently managed and represents a change relative to the Ireland HAS agreements in which a number of units are grouped under a single Service Provider contract in some instances.*

#### **4.1.1 Respondents' Views on Framework Agreement structure**

The majority of respondents supported the proposal that the Framework Agreements should apply on a Providing Unit basis. One respondent commented that *"it is consistent with the wider wholesale market design where contracts and settlements will be applied on a unit basis as a means of negating market power of portfolio players."*

Two respondents commented that the proposal would lead to an increased administrative burden. One respondent questioned whether this proposal would result in multiple statements of accounts and invoices (one for each Providing Unit) and suggested that there should be a single monthly statement of account and invoice covering all Providing Units for each Service Provider. The respondent also proposed that *"Service Provider"* be defined based on a statutory entity basis such that each statutory entity is invoiced separately.

Two respondents commented in relation to the submission of information for the interim arrangements' tender/procurement process on a Providing Unit basis. One respondent commented that there should be *"an overarching Framework Agreement for each Service Provider with associated documentation for each*

*Providing Unit capturing the details of the unit and the characteristics of each service that is under contract for each unit.”*

#### **4.1.2 TSOs’ Response - Framework Agreement structure**

The TSOs would like to clarify that the consultation question relates to the Framework Agreements themselves i.e. whether the details of multiple Providing Units will be listed as multiple schedules (Schedule 9 - Providing Unit and Operating Parameters) under a single Framework Agreement per Service Provider or whether, as proposed, each Providing Unit will have its own Framework Agreement. It does not reference the tender/procurement process.

There were two main reasons for proposing this structure. The first is that with a doubling of the number of services and inclusion of optional provision system services, rather than Grid Code mandated ones, maintaining Schedule 9 for a number of Providing Units under a single Framework Agreement is not pragmatic. The second was that for the enduring arrangements, procurement of system services will be a competitive process, with Providing Units competing against each other on an annual basis to contract for system services with potentially both the Providing Units that receive contracts and the services which they are contracted to provide changing on an annual basis. In this context, the structure of maintaining Framework Agreements on a Providing Unit basis is more optimal. Therefore, the TSOs believe that starting with this structure for the interim arrangements makes more sense.

The requirement to provide information on a Providing Unit basis for the procurement process is a separate requirement specific to that process.

Regarding the concern that the arrangement would result in multiple statements of accounts and multiple invoices, the TSOs would like to reassure respondents that this is not the case. Invoicing is currently performed on a Service Provider basis and the TSOs intend to maintain the current arrangements i.e. the TSOs will issue statements of accounts and invoices on a Service Provider basis rather than on a Providing Unit basis.

**TSO Decision:** The TSOs’ decision is that the Framework Agreements should apply on a Providing Unit basis, as proposed in the consultation paper, rather than on a Service Provider basis.



## 4.2 Compliance

### **Question 2: Do you have any comment on payment being contingent on compliance requirements being met?**

*Context: This question relates to Definitions and Interpretation clause 4.2.1 of the Framework Agreements which stipulates that payments will be made to the Service Providers “provided always that the Service Provider has passed all Compliance Requirements as set out in the Protocol”.*

#### 4.2.1 Respondents’ Views on Compliance Requirements

The majority of respondents agreed with the principle of payment for DS3 System Services being contingent on compliance requirements being met.

One respondent commented that they support “*the proposal that payment is contingent on compliance requirements being met but that the compliance requirements should be clear and appropriate to the relevant technology and service*”.

Another respondent noted that “*while [they] believe compliance to the Grid Code is an extremely important issue, [they] do not believe that it should be considered as a part of the DS3 system service contracts*”.

Some respondents expressed concern that insufficient detail on compliance requirements was provided in the draft Protocol document and that it should include more detail on when additional testing will be required for existing ancillary Service Providers. One respondent commented that any new technology should be tested prior to contracting to prove its ability to provide the service.

One respondent noted that the compliance requirements are likely to evolve going forward, and supported their inclusion in the supplementary DS3 System Service Protocol document. They did comment however, that if the compliance requirements were changed, that they should not come into effect until the start of a new contract.

#### 4.2.2 TSOs' Response on Compliance Requirements

The TSOs would like to clarify that while, under *Definitions and Interpretation Clause 3.2* of the Framework Agreements, Service Providers are required to comply with the Grid Code or Distribution Code as appropriate where relevant to the provision of the DS3 System Services, the new DS3 System Services are not detailed in the Grid Code. Compliance requirements in relation to these DS3 System Services are as set out in the Protocol document. Compliance in this context is intended to mean that the TSOs are satisfied (through testing or historical evidence as appropriate), that they have proof that a given Service Provider is capable of delivering a DS3 System Service which it is contracted to provide. Performance monitoring is the subsequent monitoring of the provision of that service and is separate to compliance. The TSOs note the requests for additional detail on compliance requirements and have endeavoured to provide a more detailed set of requirements in the revised Protocol document.

The TSOs would like to clarify that we do not intend to alter the compliance requirements for a given DS3 System Service during the term of the interim Framework Agreements.

**TSO Decision:** The TSOs' decision is to leave clause 4.2.1 as currently written, whereby payment to Service Providers for DS3 System Services is contingent on compliance requirements being met.

### 4.3 Protocol

#### **Question 3: Do you have any comment on the proposal to detail performance monitoring in the Protocol document rather than in the Framework Agreements?**

*Context: The DS3 System Services Protocol document is proposed as a supplementary document to the DS3 System Services Framework Agreements. It provides information on compliance and performance monitoring requirements that need to be satisfied by Service Providers and their respective Providing Units as part of the DS3 System Services contractual arrangements.*

*For the Interim arrangements, the consultation paper proposed that the Protocol be a regulated document to which the TSOs may propose changes on a quarterly basis (end December, end March, end June and end September) with the approval of the Regulatory Authorities and that it will not be subject to industry consultation except where a material change is proposed.*

#### **4.3.1 Respondents' Views on Protocol document**

The majority of respondents expressed a preference for the inclusion of performance scalar details in the body of the main Framework Agreements rather than in the supplementary Protocol document. A number of respondents stated that if performance monitoring is to be included in the Protocol document, that any changes to the document should be subject to industry consultation.

One respondent commented that the level of detail on performance scalars is currently insufficient in either the Protocol document or the interim Framework Agreement and that the detail of the performance scalar should be set for the duration of the contracts.

Another respondent commented that allowing the TSOs to have the flexibility to change performance monitoring details could potentially have significant impacts on generator revenues. This view was shared by another respondent who commented that performance monitoring, reliability targets and the associated scalar calculations could materially impact on revenues and should be fixed for the duration of the contract. Some respondents expressed a preference for the details of performance monitoring to be included in the Framework Agreement,

but would accept if they were included in the Protocol document subject to the details being fixed for the duration of the Interim arrangements.

One respondent commented that the Protocol document should include the detailed technical definitions of the DS3 System Services, the procurement process of each service and the operational principles associated with the use of the services.

A number of respondents had concerns with regard to the proposed governance of the Protocol document, stating that changes to the Protocol should only be permitted annually when contracts are renewed and should be subject to industry consultation and regulatory approval.

#### **4.3.2 TSOs' Response on Protocol document**

The TSOs appreciate respondents' concerns in relation to the inclusion of the detail of performance scalars and monitoring in a supplementary Protocol document. The reasoning behind this is to allow the inclusion of the details of enhanced performance monitoring as they are developed by the TSOs. The intention is not to materially change the method of calculation of performance scalars during the term of the Framework Agreement, but to add detail to the manner in which performance monitoring will be carried out as experience is gained in monitoring the delivery of the new system services.

The TSOs are endeavouring to provide value to consumers and fairness to all Service Providers by rewarding good service provision and conversely addressing ineffective provision through performance monitoring. If improvements in performance monitoring (as opposed to fundamental changes to performance scalar methodology) cannot be incorporated into the interim arrangements as they are developed, the TSOs will be limited in our ability to monitor the delivery of DS3 system services during the interim year. In addition, given that the proposed governance of the Protocol is such that any changes will be subject to regulatory approval and that any material change will be subject to industry consultation, the TSOs believe that any changes will be adequately regulated by the proposed governance of the Protocol document. Therefore our

view is that the governance of the Protocol should be as originally proposed in the consultation paper.

**TSO Decision:** The TSOs' decision is that performance monitoring should be detailed in the Protocol document rather than in the Framework Agreements and that the governance of the Protocol document should remain as proposed in the consultation paper i.e. that the TSOs may propose changes on a quarterly basis (end December, end March, end June and end September) with the approval of the Regulatory Authorities and that the Protocol document will only be subject to industry consultation where a material change to the document is proposed.

## 4.4 Termination

### Question 4: Do you have a view on the change in notice period for termination of one or more system services by the Company?

*Context: The current HAS agreements (both NI and Ireland) stipulate that the TSOs can terminate:*

*(Definitions and Interpretation Clause 8.1):*

- (a) One or more services in the agreement with **12 months' notice** in writing.*
- (b) The entire agreement by 3 months' notice in writing.*

*The consultation proposed that the TSOs can terminate (Clause 8.1):*

- (a) One or more services in the agreement with **3 months' notice** in writing.*
- (b) The entire agreement by 3 months' notice in writing.*

*Question 4 in the consultation paper sought respondents' views on this.*

#### 4.4.1 Respondents' Views on Termination clauses

A number of respondents disagreed with the proposed change relative to the HAS Agreement to Clause 8.1.1, reducing the notice period from 12 months to 3 months for the termination of one or more system services. Comments included that the change “*is not warranted because underperformance is intended to be addressed through the performance-scalar mechanism*” and that “*given the 1 year duration of the contract this arrangement presents decreased certainty and increased risk for providers and is inappropriate*”. This view was also shared by other respondents who noted that “*a change to 3-month notification creates additional and unnecessary risks for generators*” and that “*a shorter termination period exposes a generators to further uncertainty, the termination period should remain at 12 months*”.

One respondent commented that they “*believe there should be more reciprocity with regard to the Service Provider's rights to terminate, in particular the Service Provider should also have the right to terminate individual services, reflecting the TSO right to do this*”.

One respondent commented that *“as the interim contracts are now likely to last beyond the initial 1 year (due to the delay in the auction process), a 3 month termination is not appropriate. Such a termination period could potentially make a project unbankable.”*

One respondent commented that *“15 business days notice of termination for failure to pay seems too short”*.

Another respondent commented that *“if three months notice for termination was considered appropriate under a one year interim arrangement, now that the interim arrangements appear to have been extended for an additional year, we suggest six months notice is appropriate.”*

Four of the respondents agreed with the proposal to change the termination notice period in the interim Framework Agreement to 3 months (one on the proviso that it would be returned to 12 months in the enduring contract), while one did not take a view on it.

#### **4.4.2 TSOs' Response on Termination clauses**

The TSOs would like to clarify that, as stated in the Foreword, the term of the interim contracts is for one year and that this has not changed irrespective of the SEM Committee decision to delay the enduring auction.

The ability to terminate a HAS agreement based on performance has never been invoked to date. It is not the TSOs' intention to invoke the termination clause without due cause. Our preference is certainly for Service Providers to reliably provide the service for which they are contracted. While the interim arrangements will introduce performance scalars, automated enhanced performance monitoring will not be operational for all services during the interim year. Given that the interim arrangements will introduce a number of new system services and that the contract duration will be 12 months, in order to protect the end consumer, the TSOs believe that it is reasonable that we have the ability to terminate the contract for a single service with 3 months' notice.

In relation to the comment permitting termination in the case of the Service Provider's failure to pay a material amount due to the Company (as per clause

8.2(ix)), the TSOs would like to clarify that this clause is as per the existing HAS clause and that there is a reciprocal clause 8.3(i) which protects the Service Provider.

With regard to the request for more reciprocity with regard to the Service Provider's rights to terminate the contract, the termination conditions (with the exception of the notice period for the termination of one or more services) are the same as those of the HAS agreements which have been in operation for a number of years .

**TSO Decision:**

On balanced consideration of the views received and the original reason for proposing the change to Clause 8.1.1, the TSOs' decision is to set the notice period for the termination of one or more system services at 3 months for the interim arrangements as proposed in the consultation.



## 4.5 Product Scalars

### Question 5: Do you have a view on the proposed definition of Product Scalars in the Framework Agreement?

*Context: This question sought views on the definition of product scalars for the POR, SOR, TOR1, SSRP and FFR system services. As noted in the Foreword, there was confusion among some respondents regarding the interim scalar arrangements and their relationship to the enduring scalar arrangements. For clarity, the interim arrangements' scalars are simplified versions of the enduring scalars. This interim contracts consultation sought views on those interim scalars (performance and product) as detailed in the draft Framework Agreements and Protocol document independently of the enduring scalars' consultation.*

#### 4.5.1 Respondents' Views – Definition of Product Scalar

One respondent commented that they accepted the proposed definition and concept of a product scalar in the Framework Agreement and believed that in addition to substandard performance being penalised, enhanced performance should be rewarded with a higher product scalar.

Another respondent questioned why an enhanced delivery might not attract a commensurate enhanced scalar valued at greater than 1 and noted the recommendations from the TNEI/Poyry report in this regard where a scalar greater than 1 was proposed in some cases.

#### 4.5.2 TSOs' Response – Definition of Product Scalar

The TSOs would like to clarify the difference between the performance and product scalars.

The performance scalar is intended to reward high reliability of delivery of system services, while ensuring lower payments for unreliable delivery.

The product scalar is intended to incentivise enhanced delivery of services from Service Providers and differentiates the value to the power system of different types of response.

The TSOs believe that the performance and product scalars proposed in the consultation are appropriate for the interim arrangements.

#### **4.5.3 Respondents' Views – SSRP Product Scalar**

Some respondents commented that they had concerns that the product scalar for SSRP does not have the same level of detail in the Framework Agreement as product scalars for operating reserves and requested that the Framework Agreement be amended to include the numerical value for the SSRP scalar rather than its current definition.

#### **4.5.4 TSOs' Response – SSRP Product Scalar**

The definition of the SSRP scalar has an equivalent level of detail to that currently defined in the HAS contracts, amended to account for a broader range of Service Providers. However, in light of respondents' comments, the TSOs have included the numerical values for the SSRP scalar in the updated Framework Agreements for clarity.

#### **4.5.5 Respondents' Views – TOR1 Product Scalar**

One respondent commented that they agreed with the use of a product scalar for FFR, POR and SOR to differentiate between dynamic and static response, but suggested that this should be removed for TOR1 as they felt that the difference in value between static and dynamic reserves in the TOR1 timeframe (90 seconds to 5 minutes after an event) becomes very marginal given that the value of dynamic response is in the real-time regulation of system frequency.

#### **4.5.6 TSOs' Response – TOR1 Product Scalar**

The TSOs believe that there the inclusion of a product scalar for TOR1 is appropriate as dynamic response in the TOR1 timeframe is more useful to system operation than static response. The frequency may recover in the TOR1 timeframe and having a dynamic response where the reserve adjusts in proportion to the recovery of frequency is more valuable.

#### 4.5.7 Respondents' Views – Emulated Dynamic Response

One respondent commented that dynamic output control response for emulated response needs to be defined more clearly and referenced Figure 2 of the clarification note provided during the consultation<sup>3</sup>, requesting clarity on whether the ten steps in the diagram are over the full range of output contracted rather than over what might be a lower output in the case of just a small dip in system frequency.

#### 4.5.8 TSOs' Response – Emulated Dynamic Response

The TSOs can clarify that the ten steps depicted in *Figure 2: Emulated Dynamic Response (10 steps continuously tracking frequency)* of the clarification note are over the full range of output. Not all steps may be activated for an event, however, only those steps corresponding to where the frequency went below the Reserve Step Triggers.

#### 4.5.9 Respondents' Views – FFR Product Scalar

One respondent expressed disappointment that there is no scalar for faster response for FFR in the interim arrangements, arguing that faster response appears to be valued on the system and should be rewarded accordingly. The respondent also commented that product scalars should be based on the technical capability of the Providing Unit, not a lower grade of delivery that might be requested by the system operator.

#### 4.5.10 TSOs' Response – FFR Product Scalar

The FFR service will be procured as part of the Qualification Trial Process and appropriate scalars will be developed as part of the enduring arrangements.

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<sup>3</sup> <http://www.eirgridgroup.com/site-files/library/EirGrid/Clarification-Note-on-Dynamic-vs.-Static-Response.pdf>

#### 4.5.11 Respondents' Views – Generic Product Scalar definition

One respondent commented that the definition of Product Scalar [in the Glossary] refers only to “*a multiplicative factor which adjusts the payment for a given DS3 System Service .....with an enhanced performance ....*”.implying that only increased payments are possible and therefore a scalar of greater than one, which the respondent believes is misleading.

#### 4.5.12 TSOs' Response – Generic Product Scalar definition

The TSOs have amended the definition of *Product Scalar* in the Glossary to reflect the fact that a product scalar can adjust payment based on either an enhanced or reduced performance by a Providing Unit.

#### 4.5.13 Respondents' Views – Reserve Trigger Scalar threshold

One respondent commented that the 49.3Hz threshold for the trigger scalar is more demanding than that required within STAR, thereby excluding capability previously demonstrated within STAR and suggested slightly reducing the 49.3Hz threshold.

#### 4.5.14 TSOs' Response – Reserve Trigger Scalar threshold

The reserve trigger scalar threshold of 49.3Hz threshold was set on the basis that the STAR scheme will be extended for the duration of the interim arrangements i.e. until 30 September 2017.

### **TSOs' Decision:**

The TSOs have made amendments to the Framework Agreement, as detailed in the preceding responses (definition of SSRP product scalar, generic definition of product scalar). In general, the TSOs believe that the performance and product scalars proposed in the consultation are appropriate for the interim arrangements.

## 4.6 Performance Scalars

### Question 6: Do you have a view on the high-level definition of the Performance Scalars in the Protocol document?

*Context: Performance monitoring and the associated performance scalars are defined in the Protocol document.*

#### Respondents' Views

A number of respondents agreed with the need for and benefit of performance monitoring, but had a number of comments on the performance monitoring proposals presented in the consultation.

##### 4.6.1 Pass Rate Methodology

A number of respondents commented that they did not agree with the binary nature of the pass rate methodology as they believe that it does not distinguish between marginal failure and outright failure to provide a system service.

##### 4.6.2 TSOs' Response - Pass Rate Methodology

The TSOs believe that the use of the pass rate methodology is appropriate and fair in the evaluation of Providing Unit performance under DS3 System Services. Tolerances are taken into account where applicable and the performance scalar is set based on a sliding scale.

##### 4.6.3 Data Poor

A number of respondents did not agree with the proposal to use the industry average performance for Providing Units deemed to be "Data Poor". Some argued that the performance scalar should be set equal to 1 for these units until such time that there is sufficient performance data available, as otherwise poor performance of a frequently used provider could have an adverse and unwarranted impact on other Service Providers that are used infrequently.

One respondent suggested that for data poor units the performance scalar should be the greater of the Providing Unit and the industry average performance scalars. One

respondent commented that only a Providing Unit's own data should be used for the determination of the scalar, even if this requires the use of data older than that specified in the proposed performance scalar calculation. Another respondent stated that a wider period of historic data (e.g. over the last 12-24 months) should be used to determine reliable historic performance metrics, where more recent data should be used if available.

One respondent expressed their concern that the details of performance monitoring calculations are too strict and will not provide the necessary incentives for Service Providers to improve their overall performance. They commented that that no Providing Unit will have adequate data to be assessed on their own level of performance (i.e. they will not be 'data rich'), and therefore each unit will likely be allocated the industry average scalar. The respondent suggested that the criteria should be changed as follows:

- For new Generators and technologies with limited historical evidence, their level of performance should be based on the average performance of that technology, rather than the overall industry average.
- For existing units with adequate running time, a threshold for performance events to distinguish between data rich and data poor should be reduced. The rolling timeframe should also be increased from 6 months to 24 months.

#### **4.6.4 TSOs' Response - Data Poor**

In light of these comments, and following feedback received during bi-lateral meetings with potential Service Providers, a number of revisions have been made to the Protocol document.

- The Data Start Date has been changed from 1 June 2016 to 31 October 2014. (The Data Start Date is the starting date from which performance record data is used in the calculation of Data Records.)
- The Data Backstop Timeframe has been changed from a 6 month rolling timeframe to a 24 month rolling timeframe.
- For "Data Poor" Providing Units, the Data Poor performance scalar will be calculated as the weighted average of a Providing Unit's own performance and the industry average performance.

The first two measures should improve the number of Service Providers who will be classified as “Data Rich” rather than “Data Poor”, while the third measure allows for the inclusion of a Providing Unit’s own performance data, even when the Providing Unit has insufficient performance records to be “Data Rich”.

With regard to the proposal to base industry averages on the average performance of the technology corresponding to that Service Provider rather than an overall industry average, this proposal will not be adopted for the interim arrangements, but will be reviewed during the determination of enduring performance monitoring.

#### 4.6.5 Performance Monitoring of Ramping services

A number of respondents commented that they believed that *Failtosync* is a poor proxy for ramping performance as a Providing Unit’s capability to provide Ramping Margin can change depending on its heat state, or whether the unit is synchronised or de-synchronised. One respondent suggested that the performance monitoring for Ramping Margin system services should be based on both following dispatch instructions when synchronised and following start-up dispatch instructions when de-synchronised.

One respondent proposed that a weighting should be applied to reflect the performance of a Providing Unit providing ramping when synchronised and de-synchronised, or alternatively a 50:50 ratio to the ramping service performance assessment.

#### 4.6.6 TSOs’ Response - Performance Monitoring of Ramping services

The TSOs understand respondents’ concerns that *Failtosync* is not an ideal method of performance monitoring for the Ramping Margin services. However, it is currently the best proxy that the TSOs are in a position to implement for the interim year. In order to deliver value to the end consumer, the TSOs consider it important that some method of performance monitoring be put in place. An improved method of performance monitoring for the assessment of Ramping Margin will be progressed as part of the enduring arrangements. For Demand Side Units (DSUs), *Failtosync* is not an appropriate metric as there is no means to measure *Failtosync* for a DSU. A better method of monitoring the performance of DSUs would be to determine whether a DSU followed a dispatch instruction as instructed. The TSOs will employ a similar method to the Performance Monitoring of DSU Dispatch Instructions currently contained in the Grid Code, which has been subject to extensive industry consultation during its

development, for the performance monitoring of DSUs delivering DS3 System Services. The Protocol document has been amended to reflect this.

#### **4.6.7 High-level definition of Performance Scalar**

One respondent requested that a high-level definition of the performance scalar be included in the Protocol Document. Some respondents commented that the performance scalar should be defined in the interim Framework Agreement in the same manner as the product scalar (a view shared by other respondents in comments on Question 3).

#### **4.6.8 TSOs' Response - High-level definition of Performance Scalar**

A high-level definition of the performance scalar has been included in the updated Protocol document and in the Framework Agreement.

#### **4.6.9 Interim vs. Enduring Performance Scalars**

One respondent commented that performance scalars should not be introduced in the interim arrangements until a decision on scalars is made for the enduring arrangements.

#### **4.6.10 TSOs' Response - Interim vs. Enduring Performance Scalars**

As noted in the Foreword, the implementation of scalars in the interim arrangements is not dependent on the enduring scalar decision.

#### **4.6.11 Minimum Data Provision Requirements**

One respondent requested that more information on the minimum data provision requirements for each service used in performance assessment be included in the Framework Agreement.

#### **4.6.12 TSOs' Response - Minimum Data Provision Requirements**

Additional information on the minimum data provision requirements for each service used in performance assessment has been included in the updated Protocol document.



#### 4.6.13 Performance Target

One respondent disagreed with the use of a 90% performance target for DS3 System Services, commenting that performance targets should instead be based on historic average performance and that the performance scalar should be  $> 1$  to reward performance in excess of the target.

#### 4.6.14 TSOs' Response - Performance Target

The TSOs believe that a 90% performance target and the proposed performance scalars are appropriate for delivering value to the end consumer and in incentivising the reliable delivery of system services. In addition, the performance target is in line with the SEM decision detailed in SEM-14-108 which states that *"the scalar may be set equal to one for reliability equal to or above 90% reducing to zero for reliability below 50%."*

#### 4.6.15 Retesting of Providing Units

Some respondents suggested that following the repair/maintenance of a Providing Unit that has been performing poorly, that there be an opportunity to test the unit and reset its performance scalar and requested an early warning of performance issues through the expansion of existing performance reports. One respondent suggested that self-certification be employed.

#### 4.6.16 TSOs' Response - Retesting of Providing Units

The TSOs would like to clarify that where a Providing Unit is re-tested following a period of poor performance, the award of two ('Pass') Data Records can be made. However, the decision to award this will be subject to the TSOs being satisfied of reasonable proof of work to enhance performance. Enhancements may include both investment in the Providing Unit and/or process changes in Providing Unit operation. More detail on this is provided in the Protocol document. The enhancement of existing performance reports is an area which the TSOs hope to progress for the enduring arrangements.

#### 4.6.17 Revenue relative to HAS

One respondent expressed concern that the use of scalars will result in reduced revenues compared to what is currently provided through HAS.

#### **4.6.18 TSOs' Response - Revenue relative to HAS**

The proposed interim tariffs have been calculated to ensure that reliable Service Providers will not have reduced revenues relative to those earned through HAS.

#### **4.6.19 Performance assessment data records**

One respondent commented that for ramping and reserve the data backstop limit for records is too low and proposed that this is extended to at least 30 performance records, allowing an appropriate period to monitor performance against less frequently activated services.

#### **4.6.20 TSOs' Response - Performance assessment data records**

Based on respondents' feedback, the data backstop limit has been amended to the last 10 data records or one month. The TSOs' view is that 10 data records are sufficient on which to base a performance scalar, but given the proposal for the scalar assessment frequency to be monthly, if there are more than 10 performance records for a given Providing Unit providing a given service in a given month, these extra data records will be used in determining the performance scalar. This is reflected in Table 2 of the Protocol document.

#### **4.6.21 Categorisation of Services**

One respondent commented that TOR2 is categorised as "Ramping" (Figure 2 of the Protocol document) and that Table 2 of the Protocol document indicates that FailtoSynch instructions will be used to monitor performance. The respondent pointed out that batteries will provide TOR2 but will not have EDIL and would be more appropriately categorised and tested under "Reserve".

The respondent also noted that in the "Reactive Power" category, if a unit fails the Annual Grid Code Compliance Test, it is not clear when it can be retested and suggested that there need to be rules governing the timeliness of retesting after the Service Provider has informed EirGrid that the problem has been resolved.

#### 4.6.22 TSOs' Response - Categorisation of Services

In light of respondents' comments, TOR2 has been re-categorised under Reserve and the same method of performance monitoring applied to TOR1 will be applied to TOR2.

The Protocol document has been updated to reflect that provided the Service Provider has passed its one-time test for Reactive Power as part of its qualification for an Ops certificate, unless the unit re-states its reactive power capability, it will not require a re-test.

#### **TSOs' Decision:**

The TSOs have made amendments to the Protocol document, as detailed in the preceding responses to incorporate respondents' feedback from the consultation and from bi-lateral meetings.

## 4.7 Technical Definition of Services

### **Question 7: Do you have any comment on the technical definitions of the new system services as specified in the draft DS3 System Services Framework Agreement?**

*Context: As the new system services (SIR, FFR, RM1, RM3, RM8, FPFAPR and DRR) are not defined in the Grid Code, their technical definitions are included in the Framework Agreement).*

#### 4.7.1 Respondents' Views

One respondent commented that the definition of reserve and FFR product scalars include a combination of reserve type scalar and reserve trigger scalar implemented in advance of any scalar design consultation decision.

#### 4.7.2 TSOs' Response

As noted in the Foreword, the interim scalars' implementation is not dependent on the enduring scalars' decision. The interim contracts consultation specifically covered the use of scalars in the interim arrangements.

#### 4.7.3 SIR Factor

A respondent commented that the SIR Factor minimum value of 15 has been set at a level that rules out most of their units from receiving revenue from this system service. They suggested that the minimum level should be lower to ensure that all substantial conventional generation is remunerated for the provision of inertia when running.

#### 4.7.4 TSOs' Response - SIR Factor

The definition of the SIR system service, including the minimum value for the SIR Factor, is consistent with SEM Committee Decision SEM-13-098 and the definitions therein were consulted on twice, both by the TSOs and by the Regulatory Authorities. In addition, the design of the service is such to incentivise a future portfolio that can operate at significantly lower MW than the current portfolio. Existing portfolio performance, in that regard, is not sufficient for future system requirements.

#### 4.7.5 FPFAPR Available Volume definition

A respondent commented that FPFAPR available volume is defined as the product of the average MW output exported by the unit and the average declared availability to provide FPFAPR for the trading period, but was previously defined as the MW capability of the unit which changes the definition.

#### 4.7.6 TSOs' Response - FPFAPR Available Volume definition

The payment definition for the FPFAPR system service in the Framework Agreement is consistent with SEM Committee Decision SEM-14-108.

#### 4.7.7 Ramping Margin definition

Another respondent commented that they were concerned that the Framework Agreement does not define the Ramping Margin system services (RM1, RM3 and RM8) in the same level of detail as the SEM Committee's Decision paper on DS3 System Services Technical Definitions, SEM-13-098 and does not recognise the dynamic nature of providing ramping services by stating that both synchronised and de-synchronised units are eligible to provide these services.

#### 4.7.8 TSOs' Response - Ramping Margin definition

The definitions for the RM1, RM3 and RM8 system services in the Framework Agreement are consistent with those in the SEM Committee Decision SEM-13-098. The note on pg.15 of SEM-13-098 stating that "*both synchronised and non-synchronised plant are eligible to provide the service*" clarifies this, but does not form part of the Ramping Margin definition.

The TSOs would like to clarify that both synchronised and de-synchronised Providing Units are eligible to provide Ramping Margin services and the DS3 System Services settlement systems are aligned with this.

#### **4.7.9 Potential Ramping Margin**

Another respondent commented that for the Ramping Margin services, it is not clear which heat state the calculation of Potential Ramping Margin relates to and questioned whether it is the intention to base this 'potential capability' on the unit being hot, given that the actual heat state (and therefore the actual availability of RM1, RM3 and RM8) will be driven by TSO dispatch decisions, or that the current heat state will be declared by the Service Provider.

#### **4.7.10 TSOs' Response - Potential Ramping Margin**

The warmth state relating to the calculation of Potential Ramping Margin will not be based on the unit being hot. It will be calculated on a Trading Period basis by comparing the time which has elapsed since the last desynchronisation time of the Providing Unit against the cooling boundaries in the Providing Unit's technical offer data.

#### **4.7.11 RM Declared Value**

One respondent questioned how, for the Ramping Margin services, the Declared Value in the calculation for payment is declared (e.g. is it an EDIL declaration of a ramp rate or a notification of a change to the Synchronous Start-up Time.)

#### **4.7.12 TSOs' Response - RM Declared Value**

The Declared RM1, RM3 or RM8 as appropriate will be based on the maximum capability of the unit in MW. It will be limited by a maximum contracted value detailed in Schedule 9 of the Framework Agreement. A table of non-Grid Code EDIL Declarations has been added to the Protocol document.

#### **4.7.13 DRR Available Volume definition**

A respondent commented that for DRR, the DRR Available Volume should not be the product of the Registered Capacity and the Declared DRR, that to be consistent with the DS3 Technical Definitions decision paper, the DRR Available Volume should be based on the Registered Capacity of the unit for the percentage of the Trading Period in which the unit is synchronised.

#### **4.7.14 TSOs' Response - DRR Available Volume definition**

The definition of the DRR system service is consistent with SEM Committee Decision SEM-13-098. For clarity, the Time-Weighted Average of Declared DRR will have a value between 0 and 1. Declared DRR will be 1 when the Providing Unit is synchronised or connected to the power system and 0 when it is not. The Providing Unit may be synchronised or connected to the power system for part of a Trading Period, in which case the Time-Weighted Average of Declared DRR will have a value greater than 0 and less than 1.

#### **4.7.15 Generic Technical definitions**

One respondent commented that the technical definitions are written with generators in mind and will have to be amended for storage plant like flywheels and batteries.

#### **4.7.16 TSOs' Response - Generic Technical definitions**

The technical definitions have been drafted with a wider range of technologies in mind than conventional generators (including e.g. DSUs and batteries).

#### **4.7.17 Changes in real-time provision of reserve**

One respondent commented on the inclusion of the paragraph to cover real-time requests by the TSO to alter reserve characteristics and stated that while they agreed that the TSO needs to be able to control these, that they do not agree that one minute is adequate notice. They also commented that on those occasions where the TSOs request changes in real-time provision, such incidences should be excluded from any performance monitoring assessments.

#### **4.7.18 TSOs' Response - Changes in real-time provision of reserve**

The TSOs wish to clarify that failure to deliver requested changes in real-time provision will not affect the performance scalars. However, the TSOs do require Service Providers to respond as requested by the TSO as stipulated in the Framework Agreement.

#### **4.7.19 Performance assessment sections in Framework**

One respondent commented that the performance assessment sections for all the services are very sparse in the Framework Agreement and that no reference is made to the fact that they are being defined in the Protocol document.

#### **4.7.20 TSOs' Response - Performance assessment sections in Framework**

The sections on performance assessment in the Framework Agreement reference the respective performance scalars which are defined in the Framework Agreement Schedule 1 Definitions as being defined in the Protocol.

#### **4.7.21 Performance Assessment of Reserve**

Two respondents commented that the recent change in the assessment of reserve expected performance due to inertia should be included.

#### **4.7.22 TSOs' Response - Performance Assessment of Reserve**

The TSOs agree that the recent change in the assessment of reserve performance should be included and have included it in the updated version of the Protocol document, where performance assessment is detailed.

#### **4.7.23 Calculation Values Table**

A respondent commented that the Calculation Values Table in the current SONI HAS contract which details the number of decimal places and rounding method used for various parameters should be included in both the Framework Agreement and the Protocol document.

#### **4.7.24 TSOs' Response - Calculation Values Table**

The TSOs have included a Calculation Values Table in the updated Framework Agreement.



#### 4.7.25 Participation of Intermediaries

A respondent commented that some rewording will be necessary to enable the participation of Intermediaries.

#### 4.7.26 TSOs' Response - Participation of Intermediaries

As noted in the consultation paper, the TSOs are aware of this and have drafted a Framework Agreement to account for intermediaries, based on the generic draft Framework Agreements for all other Service Providers.

#### 4.7.27 Definition of RR(De-Synchronised)

The TSOs identified an inconsistency between the definition of the RR(De-Synchronised) service in the main body of the Framework Agreement and the Glossary.

#### 4.7.28 TSOs' Response - RR(De-Synchronised)

The Glossary definition has been amended to align both sections.

### **TSOs' Decision:**

The TSOs have provided clarifications on the technical definition of DS3 System Services in the preceding responses and made amendments to the Framework Agreements, where appropriate and as detailed, to incorporate respondents' feedback from the consultation

## **4.8 Payment Definitions of Services**

**Question 8: Do you have any comment on the payment definitions of the new system services as specified in the draft DS3 System Services Framework Agreement?**

### **4.8.1 Trading Period Duration application**

One respondent questioned how the definition of “Trading Period Duration” in the payment formula will be applied to flexible generators such as OCGTs when required to synchronise to the system for very short periods of time. For example, where the TSOs require a flexible Providing Unit for less than 30 minutes and yet the unit is available to provide DS3 services for the full 30 minutes whether the unit will be paid for the full Trading Period.

### **4.8.2 TSOs’ Response - Trading Period Duration application**

All payments for DS3 System Services are based on the Available Volume of the Providing Unit contracted to provide the service, not on the provision or utilisation of the services.

### **4.8.3 Determination of Available Volume**

One respondent commented that in the December 2014 SEM decision paper it was stated that “The higher of a unit’s market position or physical dispatch will be used to determine the available volume”, while the proposed calculations of Available Volume in the contract are based on physical dispatch positions only and asked for an explanation and justification and clarity on whether this change will also apply to the enduring arrangements. A second respondent also commented on this difference.

### **4.8.4 TSOs’ Response - Determination of Available Volume**

The TSOs would like to clarify that there has been no change in policy with regard to the enduring arrangements where, as the respondents have correctly pointed out, Available Volume will be determined from the higher of a unit’s market position or physical dispatch, as stated in SEM-14-108. This decision is designed to align with I-SEM, in which Providing Units will have the ability to position themselves in the market to provide these DS3 System Services. As DS3 System Services will go live on 1 October

2016 and I-SEM will not go live until 1 October 2017, the interim arrangements do not account for a Providing Unit's market position in determining the Available Volume. This has been agreed with the Regulatory Authorities and is in line with the design of the settlement system for the interim arrangements.

#### **4.8.5 FFR, FPFAPR and DRR Performance Scalars**

One respondent suggested removing references to the FFR, FPFAPR and DRR performance scalars, given that the Protocol document states that the three fast-acting DS3 System Services (FFR, FPFAPR and DRR) will not be subject to the interim performance monitoring arrangements.

#### **4.8.6 TSOs' Response - FFR, FPFAPR and DRR Performance Scalars**

Schedules for FFR, FPFAPR and DRR were included in the Framework Agreement as a means of consulting on the contractual drafting of their schedules, although they will be trialled through the Qualification Trial Process in the Interim arrangements. As correctly pointed out by the respondent and as stated in the Protocol document, FFR, FPFAPR and DRR will not be subject to performance monitoring during the Qualification Trial Process. Their performance scalars will be set equal to 1. Unlike SIR, which will never be subject to performance monitoring due to the nature of the service, it is intended to performance monitor FFR, FPFAPR and DRR in the enduring arrangements.

#### **4.8.7 RP Factor**

One respondent commented that the RP factor calculation is very penal for units that satisfy minimum generation grid code requirement and that the calculation is in essence reducing payments by 50% (28.6% on existing HAS).

#### **4.8.8 TSOs' Response - RP Factor**

All payment calculations, including that relating to RP factor, have been consulted on by both the TSOs and Regulatory Authorities and the payment definitions in the Framework Agreements are fully reflective of the Regulatory Authorities' decision.

#### 4.8.9 Qualification Trial Process

One respondent expressed their disappointment that the fast acting products will be subject to a separate product trial and qualification process which is as yet unclear and increases uncertainty of revenue for providers who can provide these services on existing conventional units.

#### 4.8.10 TSOs Response - Qualification Trial Process

The Qualification Trial Process for FFR, FPFAPR and DRR was conceived as the most appropriate means to procure these new fast-acting DS3 System Services for the interim arrangements and is a step in the development of enduring arrangements which will have a shared procurement with the other 11 DS3 System Services.

#### 4.8.11 Ramping Margin Available Volume

One respondent asked for clarification on what *“the average MW Output or average MW Reduction”* means in the RM1/RM3/RM8 available volume (b) definition.

#### 4.8.12 TSOs’ Response - Ramping Margin Available Volume

In relation to the Available Volume definitions for RM1, RM3 and RM8, *average MW Output* refers to the case where a Providing Unit is a unit which generates power, while *MW Reduction* references a Providing Unit which is a Demand Side Unit.

#### 4.8.13 Resettlement Payments

One respondent proposed that where a service is provided early within a monthly charge period following an event/instruction, that payment should take account of this post initial payment considerations in the form of a resettlement revenue to the provider.

#### 4.8.14 TSOs Response - Resettlement Payments

The settlement timelines are as defined in Schedule 5 of the Framework Agreement and align with the DS3 System Services settlement system and the current Ireland HAS agreements. As further explained in responses to Question 9, there is no scope for the TSOs to amend these timelines.

#### 4.8.15 Inclusion of Payment information in the Protocol document

One respondent commented that if the payment design, including scalars was included in the protocol or charging statement that it could more easily be updated, subject to RA approval, during an extended interim term, particularly in relation to the FFR service.

#### 4.8.16 TSOs Response - Inclusion of Payment information in the Protocol document

As stated in the Foreword, the term of the interim contracts is for one year and has not changed irrespective of the SEM Committee decision to delay the enduring auction.

#### **TSOs' Decision:**

The TSOs have provided clarifications on the payment definitions in the draft Framework Agreements, which we believe are in line with SEM-14-108.

## 4.9 Billing and Settlement

### **Question 9: Do you have any comment on the alignment of settlement timelines between Ireland and Northern Ireland?**

*Context: The consultation paper and framework drafting proposed aligning the billing and settlement procedure and timelines currently used in Northern Ireland Harmonised Ancillary Services (HAS) with those currently used in the Ireland HAS.*

*Question 9 in the consultation paper sought Service Providers' views on this.*

*The current settlement process for Northern Ireland HAS is as follows:*

- *Daily confirmation statements are issued by the TSO by D+3.*
- *The Service Provider prepares and submits an invoice on the basis of the agreed confirmation sheets within 10 Business days after the end of the month (M+10)*
- *The TSO pays the invoice 28 days after the end of the month (M+28) or 10 business days after the receipt of the invoice whichever is the later.*

*The current settlement process for Ireland HAS (and that proposed for both NI and Ireland for DS3 System Services) is as follows:*

- *A statement of account is issued by the TSO within 25 business days after the end of the month (M+25)*
- *The Service Provider prepares an invoice on the basis of the statement within 10 Business days of statement receipt*
- *The TSO pays the invoice within 10 business days of its receipt.*

## Respondents' Views

### 4.9.1 Alignment of Settlement Timelines

A number of Service Providers welcomed the alignment of settlement timelines between Ireland and Northern Ireland. However a number of the NI Service Providers expressed discontent with the changed timelines for settlement, as they will be longer for NI than they currently are for HAS (currently payment by M+28 or later if invoice submitted later). The revised process will have a best case payment scenario of M+35, if the invoice is submitted immediately on receipt of statement and a latest case payment scenario of M+45 if the Service Provider takes 10 days to submit an invoice. In addition, despite the fact that the settlement timelines proposed are the same as those currently in operation in Ireland HAS, some Ireland respondents commented that the current NI HAS timelines should be adopted for the Ireland DS3 System Services interim contracts.

One respondent commented that it is *“unacceptable that the TSO should take 25 working days to provide the statement of account, by this stage it is going to be very difficult to ascertain the correct information if there are any disagreements, no one in the control rooms will remember back that long”*.

### 4.9.2 TSOs' Response - Alignment of Settlement Timelines

The TSOs understand the concerns of the Northern Ireland participants with the revised timelines. The need to align both processes is a consequence of the new system services settlement system, the doubling in number of system services and the increased number of Service Providers. It will no longer be possible to issue daily confirmation statements in Northern Ireland under the new arrangements.

The 25 business days required by the TSOs to develop a statement of account as part of the monthly billing cycle include four phases, which are sequential.

**Phase 1:** involves the acquisition and quality control/validation of very large volumes of settlement data required for the monthly billing cycle. This data comprises a complex set of data feeds including metered data (delivery aligned with SEM timelines), EDIL data, EMS data, PMR Files, TOD data, SCADA data and contract standing data

updates. Phase 1 cannot begin until month end + 6 business days (M+6) to ensure that all relevant data is available.

**Phase 2:** which involves the processing of large volumes of data in the settlement system (“Bill Case Processing”), can only commence once Phase 1 is complete. It includes extensive checking and quality control of the results.

**Phase 3:** is “Report Generation & Analysis” where individual settlement statements and reports are produced for all System Services for all units. Variance analysis is performed for each unit. Huge volumes of data are analysed at a detailed level to minimise the possibility of resettlement having to take place.

**Phase 4:** is “Review and Approval” and ensures data and financial compliance in advance of the release of settlement statements to the Service Provider.

In parallel, the same TSO settlement team resources also work on the processing and preparation of statements for Other System Charges.

The TSO has reviewed the settlement process and determined that there is no scope to reduce the timeframe involved to issue the statement of account and still maintain the same level of checking and quality control of the settlement runs and issued statements. However the TSOs can commit to issuing an indicative statement of account to Service Providers by M+20 in order to provide an extra week for Service Providers to perform their checks. In addition, the TSOs will endeavour to issue this indicative statement before M+20 if possible. Note that this is an indicative statement only and payment will still be based on the statement provided by M+25.

The option to use self-billing is also available to Service Providers. Currently 100% of HAS Service Providers in Ireland avail of the self-billing facility whereby there is no requirement for them to issue an invoice and payment is made by M+35. The option of self-billing will be extended to NI Service Providers under the Interim Arrangements.



#### 4.9.3 Estimation

One respondent commented that they “*do not support the proposal for the TSO to make estimates of any missing information and apply this unilaterally*”, that “*the generator has data at their end which could be used as a substitute and both parties must be in agreement irrespective of which method is used.*”

#### 4.9.4 TSOs’ Response - Estimation

The provisions in Schedule 5 Section 1.1 which allow for estimates for the preparation of a statement are there as a worst-case scenario, to ensure that settlement is not delayed. The data flows required for DS3 System Services are aligned with those of SEM and the use of metered data for settlement is governed by the Metering Code. In addition, the TSOs have a back-up data solution in place that should preclude this from ever being invoked. The TSO settlement team have confirmed that the provisions have never been invoked during 6 years of HAS.

#### 4.9.5 Yearly reconciliation

One respondent commented on the removal of clauses 3.2 to 3.7 of Schedule 5 in the EirGrid HAS and said that they should be reinstated.

#### 4.9.6 TSOs’ Response - Yearly reconciliation

These clauses relate to yearly reconciliation, which while detailed in the current EirGrid HAS agreement, has never been used in practice and had therefore been removed as a redundant process for DS3 System Services. The TSOs intend to address all resettlement issues on a monthly basis. A dispute of statement process is included in clause 3.1 of Schedule 5 and in the case of a disputed statement that remains unresolved 40 business days after the receipt of the claim, Service Providers have recourse to the Dispute Resolution mechanism in Schedule 6.

#### 4.9.7 Sample Statements

One respondent requested documentation to assist Service Providers to prepare for the implementation of the interim arrangements including sample statements of account, sample supporting information/evidence to enable validation of the statement of account, sample performance reports and sample invoices.

#### 4.9.8 TSOs' Response - Sample Statements

As the new settlement system is currently in development, sample reports are not yet available. The TSO settlement team will organise an information session (or sessions) on the DS3 System Services settlement process as soon as the sample system reports are available. Given the timeline for development of the settlement system, this is likely to be at the end of September or beginning of October 2016, (i.e. two months in advance of the issue of the first settlement statements in December 2016). The reports will be provided in Excel format. In advance of this, the TSOs will be able to provide some guidance on the column headings that will be used in the settlement reports.

Note: This applies to settlement reports only and not to the issue of performance reports which follow a separate process.

#### 4.9.9 Statement checking

One respondent commented that *“the proposal to require confirmation of the accuracy of the Statement of Account in order to submit an invoice to the Statement amount is inappropriate in light of the fact that Issues and measurement errors may take longer than 10 days to emerge. We do not accept that failure to raise a Claim at this point should be deemed an acceptance of accuracy”* and that *“Service Providers should have the opportunity to raise a dispute for up to 2 years after the Statement is issued”*.

A second respondent also commented on the 10 day time period given for Service Providers to check statements. *“Schedule 5 1.4 states that the Service Provider has deemed to agree the accuracy of the statement if it fails to submit a claim in accordance with the previous clauses, this is not acceptable as it may take more than 10 business days for inaccuracies to become clear.”*

#### 4.9.10 TSOs' Response - Statement checking

These clauses have not been changed relative to the current Ireland HAS agreement and reflect the current agreed settlement process. They do not preclude a Service Provider from disputing information contained in a statement or invoice. The subsequent clause 1.5 (below) allows for this.

*“Nothing in Sections 1.3 or 1.4 above shall prevent either Party from disputing information contained in or referred to in a Statement or an Invoice at any time where it is reasonable in all circumstances to do so, which includes in the case of fraud or manifest error.”*

In addition, with the proposal to issue an indicative statement by M+20, Service Providers will now have 3 weeks in which to check the accuracy of statements.

#### 4.9.11 Dispute Resolution Window

Two respondents proposed that the dispute resolution window should be extended from one year to two years.

#### 4.9.12 TSOs' Response - Dispute Resolution Window

The TSOs are of the view that one year is sufficient time for a Service Provider to identify and raise a dispute and that it is in the interests of the TSOs, Service Providers and end consumers that the financial accounts in relation to the interim arrangements are finalised within a reasonable time period.

#### **TSOs' Decision:**

As explained in the consultation paper and referenced in the preceding responses, the need to align the Ireland and Northern Ireland billing and settlement processes is a consequence of the new system services settlement system, the doubling in number of system services and the increased number of Service Providers. In light of respondents' comments, the TSOs have committed to provide an indicative statement of account to Service Providers by M+20 and earlier if possible. The TSO settlement team has also committed to organise an information session (or sessions) on the DS3 System Services settlement process as soon as the sample system reports are available (likely to be at the end of September or beginning of October 2016). In advance of this, the

TSOs will be able to provide some guidance on the column headings that will be used in the settlement reports. The extension of the facility of self-billing to NI will also ensure a best case payment timeline of M+35 for all Service Providers.

#### 4.10 Additional General Comments

##### 4.10.1 Submission of Technical Offer Data

One respondent commented that clause 3.4.2 states that

*“The Service Provider shall provide Technical Offer Data to the Company in accordance with the TSC. For the avoidance of doubt this clause 3.4.2 shall apply regardless of whether or not the Service Provider is a party to the TSC. Such Technical Offer Data will be subject to validation by the Company”.*

and that it is not a requirement of the Interconnector to be party to the TSC and that this should be clarified in the Framework Agreement.

##### 4.10.2 TSOs’ Response

The relevant section in Appendix I of the TSC (I3D.8 below) specifies that certain market participants are not required to submit technical offer data in respect of certain Generator Units including interconnectors.

- I3D.8 Participants shall not submit Technical Offer Data in respect of each of the following Generator Units:
- a. Autonomous Generator Unit;
  - b. Interconnector Unit;
  - c. Interconnector Residual Capacity Unit;
  - d. Netting Generator Unit; and
  - e. Interconnector Error Unit.

For an interconnector, providing Technical Offer Data to the Company in accordance with the TSC as per clause 3.4.2 of the Framework Agreement equates to not providing technical offer data.

#### 4.10.3 Fuel Security Code

One respondent commented that the link with Fuel Security Code had been omitted from the Framework Agreement and suggested that this should be included to provide clarity as to the order of governance of the agreements relevant to the contractual arrangements.

#### 4.10.4 TSOs' Response

The Northern Ireland Fuel Security Code is referenced a number of times in the Northern Ireland draft Framework Agreement, specifically, clause 1.5 states that *“where a provision of this Agreement conflicts with the Northern Ireland Fuel Security Code, the provisions of the Northern Ireland Fuel Security Code shall prevail to the extent of the inconsistency or conflict”*.

#### 4.11 Legal Drafting Comments

In response to comments received in the consultation, amendments have been made to the Framework Agreements in the following sections:

**Definitions and Interpretation:** Recitals C and D;

**Commencement and Duration of Agreement and Appointment to**

**Framework:** Clause 2.1.1 (amended); Clause 2.1.2 (amended); Clause 2.4.1 (amended); Clause 2.4.2 (amended); Clause 2.4.3 (deleted); Clause 2.4.4 (deleted); Clause 2.4.5 (amended); Clause 2.6.1 (amended); Clause 2.8 (deleted); Clause 3.2 (amended); Clause 4.2.3 (amended); Clause 5.1 (amended); Clause 6.2 (amended); Clause 8.2(x) (new).

**Definitions:** Cold (new); Declared (amended); Declared Automatic Voltage Regulator Status (amended); Energy Storage Providing Unit (new); Force Majeure (amended); Hot (new); Hot Cooling Boundary (new); Hydro-electric Providing Unit (new); Notifying Party (new); Performance Scalar (amended); Product Scalar (amended); Pumping Mode (new); Pumped Storage Providing Unit (new); Ramping Margin Limitation (new); RR (De-synchronised) (amended); SSRP MinGen (amended); Tender (new); Term (deleted); Warm (new); Warm Cooling Boundary (new); Warmth State (new);

**Schedule 2:** Sections 3.1(b); 7.2.1(c); 7.2.2(c); 7.3;

**Schedule 3:** Section 3.2 SSRP Product Scalar definition.

**Schedule 4 Part A:** 3.1(b) (typo); 3.2 (correction of unit);

**Schedule 4 Part D:** Section 2 (typo). Sections 3.1 (c); 4.1 (c); 5.1 (c): (Potential Ramping Margin definition).